

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, September 15, 2000
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910. Dr. Chuck Essigs, Chairman, ASRS Board, called the meeting to order at 8:34 a.m., MST.

The meeting was teleconferenced to the ASRS Tucson office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710-3776.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Chuck Essigs, Chairman
Mr. Jim Bruner, Vice Chairman
Dr. Merlin DuVal
Ms. Bonnie Gonzalez
Mr. Alan Maguire
Mr. Norman Miller
Mr. Karl Polen

Excused: Mr. Jim Jenkins
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the August 18, 2000 Regular Meeting and the August 29, 2000 Special Meeting of the ASRS Board

Motion: Mr. Norman Miller moved to approve the minutes of the August 18, 2000 regular meeting and the August 29, 2000 special meeting of the Arizona State Retirement System Board.

Dr. Merlin DuVal seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

3. Board Approval of Consent Schedule

Motion: Mr. Norman Miller moved that the ASRS Board approve the summary report of System Transfers; Applications and Agreements between the ASRS and the following Employers:

- (1) Learning Crossroads Basic Academy
- (2) Sequoia Choice School, LLP
- (3) Sequoia Village School
- (4) Sequoia Charter School
- (5) East Valley Youth & Family Support Center, Inc. dba, JWJ Academy
- (6) Town of Chino Valley

and the approval of contract extension of the following investment managers:

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| (1) Bank of Ireland | International Active Equity |
| (2) Brandes Investment Partners | International Active Equity |
| (3) Capital Guardian | International Active Equity |
| (4) Axe-Houghton | International ADR Enhanced Passive |
| (5) Barclays Global Investors | International Passive |
| (6) Bank One (Mortgages) | Fixed Income Active |
| (7) BlackRock Financial Management | Fixed Income Active |
| (8) JP Morgan | Fixed Income Active |
| (9) Western Asset Management | Fixed Income Active |
| (10) Barclays Global Investors | Fixed Income Passive |

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

4. Board Hearing and Action Regarding the Request for Hearing of Mr. Clifton Phillips

Board discussion with Mr. Clifton C. Phillips and Mr. Fred Stork, Assistant Attorney General, regarding Mr. Phillips' request to rescind his retirement and allow him to elect a return of contributions.

Motion: Ms. Bonnie Gonzalez moved to deny Clifton Phillips' request to rescind his retirement and to return his retirement benefits to the ASRS so that he could withdraw his contribution and his employer contributions. The ASRS plan does not authorize a rescission of retirement except to correct a mistake. Mr. Phillips has not presented a case that supports a finding by the Board that a mistake occurred that would support a rescission of Mr. Phillips' retirement.

Mr. Alan Maguire seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action with Respect to the Change in the Long Term Disability (LTD) Asset Allocation to that of the Pension Fund Asset Allocation

Mr. Jim Bruner, Chairman of the Investment Review Board Committee (IRBC), reported that at the September 5, 2000 IRBC meeting, the committee reviewed the LTD assets. The asset allocation was not exactly the same as the allocation of the retirement assets. There was committee consensus that the asset mix should be the same and should flow and change as the retirement asset mix changes.

Motion: Mr. Jim Bruner moved that the ASRS change Long Term Disability (LTD) broad asset allocation policy targets to match the broad asset allocation policy targets of the ASRS retirement assets, and that the LTD asset allocation policy targets change in accordance with future changes in the ASRS retirement asset allocation unless otherwise directed by the Board.

Dr. Merlin DuVal seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding Economic/Market Overview for the Second Quarter, 2000

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc. presented a general overview of economic trends and the performance of the S&P500 and NASDAQ for the Second Quarter, 2000.

7. Presentation, Discussion and Appropriate Action Regarding the Performance of Specialty Managers for the Period Ending June 30, 2000

Mr. Terry Dennison, reported on the Specialty Investment Managers' performance for the Bank One, Arizona, NA Mortgage portfolio, and Barclays Global Investors (BGI) Tactical Asset Allocation (TAA) for the period ending June 30, 2000.

Mr. Robert Dupnik, Vice President, and Mr. Eric Rovelli, Vice President, reported on the Bank One, Arizona, NA Mortgage portfolio performance for the period ending June 30, 2000.

Mortgages	QTR Ending 6/30/00	YTD	One Year	Three Years	Since 1/1/96
ASRS Portfolio	1.94	5.38	6.12	7.69	7.56
Giliberto-Levy Index	1.50	5.10	6.19	6.97	6.73
Total Value Added	0.44	0.28	-0.07	0.72	0.83

Mr. Jim Bruner asked why the ASRS has the BGI TAA, given that its performance has been below the benchmark for the past five years.

Mr. Dennison answered that the TAA is a risk-reducer because it acts as a kind of counterbalance to the market. It tends to reduce the overall risk in the portfolio, and this risk-reducing component allows the ASRS to be more aggressive in other parts of the portfolio.

Mr. Karl Polen observed that the BGI performance is measured against the S&P500 plus 200 basis points and asked if that was the performance objective for other managers as well.

Mr. Dennison answered that the general model for performance targets is a premium over a risk-adjusted benchmark.

Mr. Bruner noted that if the performance was measured only against the S&P500, the numbers would not be as negative.

Mr. Dennison agreed that the numbers are negative because they are not exceeding the target, the S&P500 plus 200 basis points, that has been set for them.

Mr. Peter Landin, Managing Director, and Mr. Scott Clifford, Head of Asset Allocation Strategies reported on Barclays Global Investors (BGI) TAA performance for the period ending June 30, 2000.

	QTR Ending 6/30/00	One Year	Three Years	Five Years	Inception (4/30/91)
US TAA Net Return	-2.68	7.89	20.06	21.97	18.25
Benchmark	-2.66	7.25	19.66	23.80	18.57
Total Value Added	-0.02	0.64	0.40	-1.83	-0.32

Mr. Norman Miller asked why the benchmark return in the BGI report only reflects the S&P500 and does not include the 200 basis points.

Mr. Clifford answered that the report breaks down the performance objective into the component that is equal to the S&P500 and the component that is equal to the added value.

Mr. Miller requested that BGI include the 200 basis points in future literature to the Board to reflect the performance objective beyond the benchmark of the S&P500. He also requested BGI present the allocation between equity and bonds, on either a monthly or quarterly adjustment basis, to show where shifts occur.

8. Presentation, Discussion and Appropriate Action Regarding the Review and Recommendation for Approval of New Health Insurance Contracts for Retirees for the Period Beginning January 1, 2001

Dr. Merlin DuVal, Chairman of the LTD/Health Insurance Board Committee, reported that on a five-year cycle, the State Procurement Office (SPO) of the Department of Administration (DOA) puts out a request for bids to insurance companies to provide health insurance coverage for members of the ASRS who are retirees. The process for the current cycle is now complete, and the results will be made public next week. In Executive Session earlier in the day, the committee reviewed the contracts for the next cycle of only three years. Without revealing the individual companies, providers will offer PPO/indemnity medical coverage in all 15 counties, with managed care programs in certain of the counties. Dental indemnity and managed care programs will be available throughout the state. Generally, the number of vendors is down substantially, the costs have continued to escalate and, in some cases, there will continue to be a withdrawal of managed care plans from the rural communities. The best bids have been accepted by DOA. The committee reviewed, and having no alternatives at this time, approved the recommendations.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the provider insurance contracts for health care for retirees as selected by the DOA.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

9. Director's Report

Mr. LeRoy Gilbertson stated he had no additional items beyond the materials provided to the Board.

10. Board Requests for Agenda Items

Dr. Chuck Essigs reported that some of the discussion items Board members had suggested at previous meetings have been scheduled as agenda items for future Board meetings. An actuarial report or other background materials will be provided on other topics.

Mr. Norman Miller asked the Board members to think about legislative proposals in preparation for the Legislative Session and to forward them to him as Chairman of the External Relations and Legislative Board Committee or to Tom Augherton, Deputy Director External Operations.

11. Call to the Public

Mr. Bill Peltier thanked Mr. Dennison and the other managers for clear and precise presentations. He asked Dr. DuVal if the public would receive a report on the health insurance bids. Dr. DuVal responded that the Department of Administration would release the information. Mr. Gilbertson volunteered that once the information is made public, the ASRS can provide the information to members who request it. The information may also be posted on the ASRS Web site.

There were no requests to speak from the Phoenix public.

12. The next regular ASRS Board meeting is scheduled for Friday, October 20, 2000, at 8:30 a.m. in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910.

13. Adjournment of the ASRS Board.

Dr. Chuck Essigs, Chairman, adjourned the September 15, 2000 regular meeting of the ASRS Board at 10:25 a.m.

Respectfully submitted,

Maurah Harrison, Secretary Date

LeRoy Gilbertson, Director Date